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SUBJECT: OUT-TAKES ON G20 SUMMIT

¶11. (SBU) SUMMARY: Economics and Foreign Affairs Ministry contacts confirm the GOF is satisfied with the unity and balance achieved at the G20 summit in London, calling President Obama's role "constructive" on key areas for the French. The GOF supported the U.S. proposal to triple IMF resources largely because it was so important to the U.S., but has concerns about monitoring and governance. President Sarkozy will continue to press for high-level engagement on the renewing Doha trade talks, motivated by the downturn in world - and French - trade. END SUMMARY.

¶12. (SBU) On April 7, Director General of the Treasury and Economic Policy (Treasury DepSec-equivalent) Ramon Fernandez told Acting DCM that the GOF is basically happy with the results of the G20 Summit in London. He said the G20 showed cohesion and avoided confrontation between those pushing reform and those pushing for stimulus, which had been caricatured in the press. IMF Director General Dominique Strauss-Kahn had called for recovery first, followed by regulatory reform but the GOF does not agree, just as it did not accept EU reproaches over French public budget deficits, expressed at the EU summit in Prague. That said, the GOF will review the situation and introduce further stimulus measures if the French economy does not begin to recover, as expected.

¶13. (SBU) Fernandez said the Elysee found President Obama's mediating role on non-cooperative jurisdictions "very constructive." In a separate meeting with the Foreign Affairs Sous-sherpa's staff, DAS-equivalent for International Economic Affairs Paul-Bertrand Baretz indicated GOF's satisfaction with positive movement, before and after London, on the issue of non-cooperative jurisdictions. He noted that the GOF alone had signed 12 bilateral conventions in recent months. More generally, Fernandez said the GOF sees President Obama and Secretary Geithner as being largely in agreement with the GOF on the regulatory issues. While several of these, such as hedge funds and tax havens were not necessarily causes of the financial crisis, he said the GOF has taken the view that if it doesn't act on these issues now, when there is an opening for change, it will never get the changes it wants. Areas where the GOF would like to go further include accounting rules and securitization. Fernandez noted that FASB was going ahead with changes in the U.S. while the IASB is holding back on reform of accounting rules affecting European countries, an imbalance that would have to be corrected some how.

14. (SBU) On trade, he said that President Sarkozy had pushed for head-of-state intervention, and took on board President Obama's statement that it is too early. The GOF hope to see further discussion of this issue in Sicily in the expanded ("G-14") portion of the G8 Summit in July. Queried on growing French interest in promoting Doha, Fernandez noted that at the end of 2008 President Sarkozy had called for "taking up the issue again." He attributed the change in approach to the fragility of the world economic situation. In the context of strong growth, a deal that did little for France or Europe was less interesting than today with the world economy shrinking 5-8% annually. He clarified that the issue is not yet "ripe" and needs further discussion.

International Financial Institutions

15. (SBU) The GOF "accepted" the tripling of IMF resources because it was so important to the U.S., even though the GOF has doubts about the ability to actually obtain these resources and about the message this sends regarding fragility of the financial system. MFA staff said the GOF has concerns about effective use of new drawing rights and looks forward with interest to the IMF report on the subject that is due in fall of 2009. On IFI/MDB governance, Fernandez noted that only the U.S. Sherpa opposed language stating that the heads of these institutions should be chosen without regard to nationality. For the GOF, this was not a serious problem, if a bit bizarre. He said that U.S. acceptance of this principle, whenever it comes, would be "a useful signal" to many emerging partner countries, who appear less than totally committed to multilateral approaches. Developing this further, Barets asserted that treating reform of IFI governance purely as a matter of "correcting" European

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overrepresentation is "oversimplified" and said the GOF is very interested in U.S. proposals on the issue.

Emerging Economies

16. (SBU) On Central Europe, Fernandez said, the situation is ambiguous and complicated, confirming that the countries involved resolutely refuse anything but case-by-case treatment. At the same time, he said it was not necessarily logical to undertake certain measures (rollover etc.) with the private sector in Hungary, for instance, and not in other countries. Resources for EU members had been increased to 50 billion euros, even though almost 10 billion euros remained of the first tranche. He stressed that early entry into the euro zone is not a solution. The EU is consulting on whether and under what circumstances it should increase its facility for neighboring countries, such as the Ukraine. The GOF and other EU member states want to discuss the matter of central and eastern Europe further in the spring Bank-Fund meetings, he said.

17. (SBU) Concerning other emerging countries, Fernandez said it was not particularly productive to speak of a distinct "crisis." He characterized as "positive" the IMF's work with lines of credit, for instance for Mexico. For many other cases, he said that there may be nothing to do but watch, wait and be prepared rapidly if and when it becomes necessary. He agreed that there are quite a number of vulnerabilities in the system which could compound one another under certain circumstances.

18. (SBU) Comment: Given his past tenure as deputy economic advisor to President Sarkozy and his close relationship with G20 Sherpa Xavier Musca, we take Fernandez's assessment to be definitive. End Comment.

PEKALA